20 September 2018

Bagir Group Ltd.
("Bagir", the "Group" or the "Company")

Interim results
for the six months ended 30 June 2018

Bagir (AIM: BAGR), a designer, creator and provider of innovative tailoring is pleased to announce its results for the six months ended 30 June 2018.

H1 Highlights

- Revenues of $24.8m for the first half of 2018, in line with management expectations (H1 2017 $28.1m).
- Higher production costs in the first half of 2018, affected gross margin and profitability, attributed to the following:
  - recruitment and training of new production line teams in Ethiopia as a result of the increase in production capacity following the investment in new machinery in 2017;
  - training of the new teams has led to higher than typical anticipated raw material usage; and
  - subcontractor's costs in Vietnam and Egypt have been higher during the transition period where production has been moved to more competitive costing programs.
- Adjusted EBITDA* loss of $(1.7) and gross margin of 6.7% in the first half of 2018 resulting from the above higher production costs, compared with adjusted EBITDA* of $1.1m and gross margin of 16.4% in H1 2017.
- Cash and cash equivalents at 30 June 2018 of $2.8m, which includes $1.65m received from Shandong Ruyi in the period as announced on 9 January 2018 ($2.6m and $7.1m at 31 December 2017 and 30 June 2017, respectively).
- Identified and commenced a rationalization of operations, focusing on fewer production sites and a reduction in the operational cost base, expecting these measures to enable total cost savings (including the savings announced on 20 November 2017) by approximately $5m on an annualized basis.
- The Company has posted a circular to its shareholders containing further details of the proposed $16.5 million investment (the "Proposed Investment") in the Company by Shandong Ruyi Fashion Investment Holding Co., Ltd. ("Shandong Ruyi") and notice to convene an Extraordinary General Meeting on 9 October at which the resolutions required to [enact] the Proposed Investment will be tabled.

** 'EBITDA' is a non-IFRS measure that the Company uses to measure its performance. It is defined as Earnings Before Interest, Taxation, Depreciation and Amortisation and non-cash share based compensation and excluding company share is losses\gains of affiliated companies. The Adjusted EBITDA figure excludes $0.2M other expenses in H1 2018 attributed to restructuring activities, and $1m one-off capital gain attributable to the acquisition in Ethiopia, net of other expenses.*

Eran Itzhak, CEO of Bagir, said:

"Alongside our trading performance which reflects the investment we have been making in expanding our Ethiopian production capacity, we have made significant progress since the year end with the strategic partnership with Shandong Ruyi, a global leader in textiles, which, subject to shareholder approval, will result in Shandong Ruyi investing $16.5 million into Bagir to support of the growth of the business in particular the expansion of the Ethiopian manufacturing site. This investment together with being in partnership with Shandong Ruyi will undoubtedly be transformative for Bagir."

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For more information about Bagir, please visit the Company's website: http://www.bagir.com

Chairman's statement

Introduction

During the first half of 2018, the Company had a positive sales performance in line with management's expectations. Sales have been positive yet the Group has continued to experience operational delays and increased production costs which have reduced profitability and gross margin. The development of the Ethiopia production capacity following the investment in new machinery in 2017, has contributed to increased costs in addition to subcontractorss costs during the transition period in Vietnam and Egypt where production has been moved to more competitive costing programs.

Looking ahead, the Group is undertaking a rationalisation of its operations, focusing on fewer production sites and a reduction in the Group's operational cost base. We expect an increased focus on the US market, due to the large order sizes and the existing competitive advantage of the Group's manufacturing locations as a result of being able to export goods into the US duty free. The Board expects that these measures, together with the operational cost savings identified in the announcement on 20 November 2017, will reduce the Group's operational cost base by approximately $5 million on an annualised basis.

As announced on 3 September 2018, the Company has posted a circular to its shareholders containing further details of the proposed investment of $16.5 million by Shandong Ruyi and notice to convene an Extraordinary General Meeting on 9 October 2018 at which the resolutions required to enact the investment will be tabled.

The investment, combined with the reorganized operations and production sites, should create a platform from which Bagir has the potential to become a significant player in our market of apparel manufacturing.

Financial review

Revenue for the six months ended 30 June 2018 was $24.8m, in line with our expectations, despite facing continued and challenging market conditions. Sales have been positive but the Group has continued to experience operational delays and increased production costs which have reduced profitability and gross margin. The increase in production costs have largely resulted from the recruitment and training of new production line teams in Ethiopia as a result of the increase in production capacity following the investment in new machinery in 2017. Training of the new teams has further led to higher than expected levels of raw material usage. Additionally, subcontractor costs, in Vietnam and Egypt have been higher during a transition period where production has been moved to more competitive costing programs.

As a result, the gross margin for the six months ended 30 June 2018 was 6.7%, compared with 16.4% for the first half of 2017. As a result of the [temporary] increased production costs detailed above, Adjusted EBITDA for the first half of 2018 was a loss of $(1.7)m compared with $1.1m profit in H1 2017 (The EBITDA is a non-IFRS measure that the Company uses to measure its performance. It is defined as Earnings Before Interest, Taxation, Depreciation and Amortisation and non-cash share based compensation and excluding company share is losses/gains of affiliated companies. The Adjusted EBITDA figure excludes $0.2M other expenses in H1 2018 attributed to restructuring activities and a $1m one-off capital gain attributable to the acquisition in Ethiopia, net of other expenses).

Looking ahead, the Group is undertaking a rationalisation of its operations, focusing on fewer production sites and a reduction in the Group's operational cost base. The Board expects that these measures, together with the operational cost savings identified in the announcement on 20 November 2017, will reduce the Group's operational cost base by approximately $5 million on an annualised basis. Selling and marketing expenses have decreased to $2.3m in H1 2018 (H1 2017: $2.7m) and general and administrative expenses have decreased to $1.5m in H1 2018 (H1 2017: $1.7m), reflecting the lower operating costs following the cost reduction plan that the Company is implementing.

Cash and cash equivalents at 30 June 2018 amounted to $2.8m, which includes $1.65m received from Shandong Ruyi in the period as announced on 9 January 2018 (31 December 2017 and 30 June 2017: $2.6m and $7.1m respectively). In the event that the Shandong Ruyi investment is rejected by shareholders at the Extraordinary General Meeting on 4 October 2018, the Company will be required to look for further funding, to cover its ongoing working capital needs, in the second half of the year. There can be no guarantee that such funds would be available to the Company nor that they would be available on terms which would not result in a substantially greater dilution of Shareholders' interests.

Operational review

The Group continues to evolve its recovery plan, which commenced in 2016, comprising a cost reduction strategy and an operational strategy. The Group continues to make good progress reducing operating costs across the business. As announced on 20 November 2017, following a review, the Group identified opportunities to reduce the Group's overall operational cost base by approximately $2 million on an annualised basis. This programme was anticipated to be implemented in full during 2018.

Following further review of the Group's operations the Company has identified further scope to increase the cost reduction programme further to approximately $5.0 million of annualised cost savings in total. This is to be achieved by reducing the number of production sites from 6 to 5, increasing the focus on the Group's largest market, the USA, together with a range of further rationalisation initiatives. The expanded cost reduction programme has commenced and is expected to complete by the end of the first quarter of 2019.

The Group is focused on its three core manufacturing geographies in Vietnam, Egypt and Ethiopia. These three manufacturing facilities, in particular Ethiopia, over the medium-longer term, give the Group a competitive advantage in the production of textiles for export to the EU and US. This competitive advantage is centered on the facilities benefiting from duty free status for sales into the EU and US (except Vietnam), highly competitive production costs and local government support for the textile industry. The Company intends to reduce the number of third party production sites in Vietnam from three to two, it will continue to manufacture from its wholly owned site in Ethiopia and from its 50:50 joint venture and subcontractor in Egypt.

The Company signed a lease extension in August 2018 for the building and its facilities for the Group's 50:50 joint venture manufacturing facility in Egypt, from May 2020 to July 2022. The Company has also signed a sub-contracting agreement with its Egypt joint venture partner, for additional production capacity in the Egypt joint venture partner's wholly owned Egyptian manufacturing site, locking in capacity and production costs for 500 suits and 200 trousers per working day from 2019 until July 2022. These developments will ensure the Group's ability to fulfill volume orders from the USA from this duty free country, at competitive prices, supporting the USA market growth strategy.

The site in Ethiopia which the Group now owns in its entirety is considered by the Directors to be fundamental to the future growth prospects of the Group. The Ethiopian facility produces suit trousers, with a current production rate of approximately 2,500 trousers per day, which is expected to grow to 3,200 trousers per day by the end of the year.

The USA is the Company's largest market and the Company will increase its focus on the USA where the average transaction size is larger.

Proposed Shandong Ruyi Investment Background

As confirmed in July 2017, the development of the production lines at the Group's facilities in Vietnam and Ethiopia to support larger volumes was slower than anticipated, impacting the Group's ability to secure larger volume orders. In September 2017, the Company confirmed that the manufacturing costs in Vietnam had increased which affected the Company's bottom line and the Board reaffirmed our aim to expand the Group's manufacturing base in Ethiopia. The Directors believe that the investment by Shandong Ruyi, which will be targeted directly at expediting the development and expanding the manufacturing facility in Ethiopia, will significantly accelerate the timetable for the operational potential in Ethiopia to be realized, enabling the facility to attract and compete for major apparel manufacturing contracts from large international retailers which generate a level of return acceptable to Bagir. After the Shandong Ruyi investment into Bagir closes a strategic partnership will be formed between the Company and Shandong Ruyi. The Directors believe that Shandong Ruyi, as a result of its significant international textile and retail investments, is well positioned to provide the Group with significant new commercial opportunities, especially in the fields of fabric design and development, and technical innovation.

The Directors also believe that the strategic partnership with Shandong Ruyi will increase the Company's own profile and reputation which should, in turn, increase customer interest in the Group and, in particular, its Ethiopian manufacturing facility. Shandong Ruyi has committed to evaluate ways in which it can provide additional operational support to Bagir. The Directors believe that the knowledge and expertise of Shandong Ruyi and the directors it proposes will join our Board will improve the Group's operations and trading performance.

Outlook

The Board believes that the proposed investment by Shandong Ruyi, one of the largest textile manufacturers in China, reaffirms their view that the Group's first mover advantage in Ethiopia is potentially transformative to its medium-to-long term

prospects. The restructuring initiatives taking place across the Group will better place the Group to take advantage of the proposed investment and the commercial synergies that the strategic partnership with Shandong Ruyi will offer.

The majority of the $16.5 million investment is expected to be used to expand the Group's existing manufacturing facility in Ethiopia. Some funds will be used to develop further the suit trouser production line and to establish a jacket production line and will increase the Ethiopian facility's ability to produce large volume and high value orders. The expansion of the Ethiopian facility will enable the Group to take advantage of the interest in the facility from international retailers and improve its ability to compete and win major apparel manufacturing contracts.

The Board is confident the proposed strategic partnership, if approved by shareholders on 9 October 2018, will be transformative.

Tessa Laws
Chairman

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June		31 December
	2018	2017	2017
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	2,815	7,050	2,604
Short-term deposit	129	132	132
Trade receivables	4,045	4,728	3,203
Other receivables	2,845	2,492*)	2,981
Inventories	8,632	5,219	6,709
	18,466	19,621	15,629
NON-CURRENT ASSETS:			
Long-term receivables	-	67*)	28
Property, plant and equipment	8,747	9,930*)	8,721
Goodwill	5,775	5,689	5,775
Other intangible assets	2,425	3,149	2,722
Deferred taxes	181	360	181
	17,128	19,195	17,427
	35,594	38,816	33,056

*) Restated, See note 2e.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

	30 June		31 December
	2018	2017	2017
	Unaudited		Audited
	U.S. dollars in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit	3,630	3,234	2,294
Trade payables	8,571	4,832	4,933
Advance on account for share purchase	1,650	-	-
Other payables	3,995	5,146*)	4,073
	17,846	13,212	11,300
NON-CURRENT LIABILITIES:			
Employee benefit liabilities	311	270	281
Payable for acquisition of subsidiary	1,909	2,382	2,154
Lease liabilities	324	872*)	580
Deferred taxes	1,138	1,379	1,128
	3,682	4,903	4,143
EQUITY:			
Share capital	3,284	3,284	3,284
Share premium	86,322	86,306	86,306
Capital reserve for share-based payment transactions	1,788	1,702	1,757
Capital reserve for transactions with shareholders	10,165	10,165	10,165
Adjustments arising from translation of foreign operations	(9,624)	(8,895)	(9,624)
Accumulated deficit	(79,815)	(73,807)*)	(76,221)
EQUITY ATRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12,120	18,755	15,667
Non-controlling interests	1,946	1,946	1,946
Total equity	14,066	20,701	17,613
	35,594	38,816	33,056

*) Restated, See note 2e.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	2018	**2017**	**2017**
	Unaudited		**Audited**
	U.S. dollars in thousands		
Revenues from sales	24,798	28,093	51,091
Cost of sales	23,129	23,485*)	43,450
Gross profit	1,669	4,608	7,641
Selling and marketing expenses	2,289	2,663*)	5,026
General and administrative expenses	1,459	1,677*)	3,299
Development costs	432	417*)	847
Other income	-	(1,392)	(1,223)
Other expenses	189	250	291
Operating income (loss)	(2,700)	993	(599)
Finance income	9	-	10
Finance expenses	(890)	(1,116)*)	(2,132)
Company's share of losses of a joint venture	-	(184)	(184)
Loss before taxes on income	(3,581)	(307)	(2,905)
Tax expenses	(13)	(296)	(123)
Net loss for the period (all attributable to the equity holders of the company)	(3,594)	(603)	(3,028)
Other comprehensive loss:			
Items to be reclassified or that are reclassified to profit or loss when specific conditions are met:			
Adjustment arising from translation of foreign operation	-	-	(729)
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurment gain on defined benefit plans	-	-	11
Total other comprehensive income (loss)	-	-	(718)
Total comprehensive loss	(3,594)	(603)	(3,746)
Net loss attributable to equity holders of the Company	(3,594)	(603)	(3,028)
Total comprehensive loss attributable to equity holders of the Company	(3,594)	(603)	(3,746)

*) Restated, See note 2e.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

	Six months ended 30 June		Year ended 31 December
	2018	2017	2017
	Unaudited		Audited
	U.S. dollars in thousands (except share and per share data)		
Loss per share attributable to equity holders of the Company			
Basic and diluted loss per share	(0.01)	(0.002)	(0.01)
Weighted average number of Ordinary shares for basic and diluted loss per share (in thousands)	310,543	310,543	310,543

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with shareholders	Adjustments arising from translation of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total equity
	Unaudited								
	U.S. dollars in thousands								
Balance at 1 January 2018	3,284	86,322	1,741	10,165	(9,624)	(76,221)	15,667	1,946	17,613
Total loss and comprehensive loss	-	-	-	-	-	(3,594)	(3,594)	-	(3,594)
Cost of share-based payment	-	-	47	-	-	-	47	-	47
Balance at 30 June 2018	3,284	86,322	1,788	10,165	(9,624)	(79,815)	12,120	1,946	14,066

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with shareholders	Adjustments arising from translation of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total equity
	Unaudited								
	U.S. dollars in thousands								
Balance at 1 January 2017	3,284	86,306	1,580	10,165	(8,895)	(73,204)	19,236	1,946	21,182
Total loss and comprehensive loss	-	-	-	-	-	(603)	(603)	-	(603)
Cost of share-based payment	-	-	122	-	-	-	122	-	122
Balance at 30 June 2017	3,284	86,306	1,702	10,165	(8,895)	(73,807)	18,755	1,946	20,701

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with shareholders	Adjustments arising from translation of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total equity
	Attributable to equity holders of the Company								
	Audited								
	U.S. dollars in thousands								
Balance at 1 January 2017	3,284	86,306	1,580	10,165	(8,895)	(73,204)	19,236	1,946	21,182
Loss for the year	-	-	-	-	-	(3,028)	(3,028)	-	(3,028)
Other comprehensive income:									
Adjustment arising from translation of foreign operation	-	-	-	-	(729)	-	(729)	-	(729)
Remeasurement gain on defined benefit plans	-	-	-	-	-	11	11	-	11
Total comprehensive income (loss)	-	-	-	-	(729)	(3,017)	(3,746)	-	(3,746)
Options forfeited	-	16	(16)	-	-	-	-	-	-
Cost of share-based payment	-	-	177	-	-	-	177	-	177
Balance at 31 December 2017	3,284	86,322	1,741	10,165	(9,624)	(76,221)	15,667	1,946	17,613

*) Less than $1 thousands.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2018	2017	2017
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net loss	(3,594)	(603)	(3,028)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Gain from remeasurement of previous investment in joint venture	-	(1,223)	(1,223)
Bargain purchase gain	-	(95)	-
Company's share of losses of a joint venture	-	184	184
Depreciation and amortization	784	1,130*)	1,926
Change in employee benefit liabilities	30	60	86
Cost of share-based payment	47	122	177
Loss from sale of property, plant and equipment	2	-	121
Finance expenses, net	825	447*)	1,515
Deferred taxes, net	10	(20)	173
Income tax expense, net	2	316	(50)
Exchange differences on intercompany current account	-	-	157
	1,700	921	3,066
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(842)	(339)*)	799
Decrease (increase) in other receivables	125	(165)	(710)
Decrease (increase) in inventories	(1,923)	162	(1,398)
Increase in trade payables	3,638	792	915
Decrease in other payables	(68)	(645)*)	(1,193)
	930	(195)	(1,587)
Cash paid during the period for:			
Interest paid	(586)	(590)	(1,090)
Interest received	-	-	8
Taxes paid	(3)	(316)	(298)
Taxes received	-	-	5
	(589)	(906)	(1,375)
Net cash used in operating activities	(1,553)	(783)	(2,924)

*) Restated, See note 2e.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

	Six months ended 30 June		Year ended 31 December
	2018	2017	2017
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from investing activities:			
Acquisition of initially consolidated subsidiary (a)	-	(1,811)	(1,811)
Investment in a joint venture	-	(1,169)	(1,169)
Purchase of property, plant and equipment	(494)	(273)	(892)
Collection of finance receivable	44	45*)	83
Purchase of short-term deposits, net	-	(51)	(51)
Net cash used in investing activities	(450)	(3,259)	(3,840)
Cash flows from financing activities:			
Advance on account for share purchase	1,650	-	-
Repayment of lease liabilities	(372)	(351)*)	(720)
Receipt of short-term credit from others	1,336	3,219	2,280
Payment of liability for acquisition of subsidiary	(400)	(400)	(800)
Net cash provided by financing activities	2,214	2,468	760
Exchange differences on balances of cash and cash equivalents of foreign operation	-	-	(16)
Increase (decrease) in cash and cash equivalents	211	(1,574)	(6,020)
Cash and cash equivalents at the beginning of the period	2,604	8,624	8,624
Cash and cash equivalents at the end of the period	2,815	7,050	2,604

a) Acquisition of initially consolidated subsidiary

The subsidiary's assets and liabilities at date of acquisition:

Working capital (excluding cash and cash equivalents)	-	(1,893)	(1,894)
Property, plant and equipment	-	7,750	7,472
Deferred taxes	-	(1,379)	(1,295)
Gain from remeasurement of investment in company previously accounted for at equity	-	(1,223)	(1,223)
Goodwill	-	(95)	100
Investment in company previously accounted for at equity	-	(1,349)	(1,349)
	-	1,811	1,811

b) Significant non-cash transactions:

Waiver of receivable from partner in joint venture	-	672	672

*) Restated, See note 2e.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NOTE 1:- GENERAL

a. Company description:

Bagir Group Ltd. ("the Company") is registered in Israel. The Company and its subsidiaries ("the Group") specialize in the manufacturing and marketing of men's and women's tailored fashion. The Company's Headquarter is located in Kiryat Gat, Israel. The Group's products are manufactured by subsidiaries in Egypt and Ethiopia and subcontractors. The Group's products are marketed in U.S, Europe (mainly in the UK) and in other countries. As for additional details, see Note 3.

b. The interim condensed consolidated financial statements for the six months ended 30 June 2018 were approved for issue in accordance with a resolution of the Board of Directors on 20 September 2018.

c. In November 2017, the Company signed a strategic Share Purchase Agreement with a global textile manufacturer (the Investor). According to the agreement, the Investor has committed to make an investment of $16.5 million in the Company in consideration for the issuance by the Company of 359,560,310 Ordinary shares that will represent 54% (fully diluted- 51%) of the Company’s enlarged issued share capital. The price per Ordinary share is approximately 3.5 pence per share (based on exchange rate as of 30 June 2018).

The transaction is subject to, inter alia, the approval of the Company’s shareholders and to the completion of various Chinese foreign exchange and other regulatory requirements by the date of closing.

Pursuant to the agreement, in January 2018 the Company received a down payment of $1.65 million from the investor, which is non-refundable in the event that the Investor fails to secure Chinese regulatory consent but is refundable if the Company’s shareholders do not approve the agreement.

The Investor has committed to complete the transaction by 31 August 2018 and has paid a further $1.65 million, which was received by the Company on 17 July 2018.

On 3 September 2018, after receiving the required information from the Investor for publication of a circular to the Company's shareholders and to convene an Extraordinary General Meeting for the approval of the transaction, the Company posted the circular to its shareholders and announced the notice of the Extraordinary General Meeting to be held on 9 October 2018.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the interim consolidated financial statements:

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

The accounting policies applied in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2017, except as described below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Assessment of going concern:

In the six months ended 30 June 2018, the Group incurred an operating loss of $2.7 million and had negative cash flows from operating activities of approximately $1.6 million. Should the proposed investment in the Company described in Note 1c above not proceed, the Company would need to seek alternative sources of funds in the second half of the financial year ending 31 December 2018 to enable it to fund its working capital needs. There can be no guarantee that such funds would be available to the Company.

In order to address the above circumstances, the Group is undertaking a rationalisation of its operations, focussing on fewer production sites and a reduction in the Group's operational cost base. The management and the Board of Directors expect these measures, together with the operational cost savings, will reduce the Group's operational cost base by approximately $5 million on an annualised basis.

The Board of Directors has considered the principal risks and uncertainties of the business, the trading forecasts prepared by management (including the projected effects of the remedial actions described above) covering a twelve-month period following the approval of the financial statements and the resources available to meet the Group's obligations for the aforementioned period. After taking all of the above factors into consideration, the Board of Directors has concluded that it is appropriate to apply the going concern basis of accounting in preparing the financial statements.

c. Financial Instruments

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39. IFRS 9 also prescribes new hedge accounting requirements.

The adoption of IFRS 9 as of 1 January 2018 did not have a material effect on the financial statements.

d. Commencing 1 January 2018, the subsidiary in Ethiopia changed its functional currency from Ethiopian Birr to United States Dollars (USD). Management's decision to change the functional currency was based on the following considerations:

- All of the subsidiary's sales are presently export sales and the sales prices are denominated and settled in USD;

- The subsidiary imports most of its raw materials and these costs are mostly denominated in and settled in USD; and

- Most of the funds generated by the subsidiary from financing activities are generated in USD.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Change in accounting policy:

The Company has restated its financial statements as of 30 June 30 2017 and for the six-month period then ended, in order to retrospecively reflect the effect of the early adoption of IFRS 16, “Leases”, in 2017. Refer to Note 2l in the Annual Financial Statements as of 31 December 2017.

Following are the effects of the early adoption of IFRS 16, “Leases” on the Company's financial statements:

Consolidated statement of financial position:

	As previously reported	**The change**	**As presented in these financial statements**
	U.S dollars in thousands		
As of 30 June 2017 (Unaudited):			
Other receivables	2,414	78	2,492
Long-term receivables	-	67	67
Property, plant and equipment	8,560	1,370	9,930
Other payables	4,474	672	5,146
Lease liabilities	-	872	872
Accumulated deficit	(73,778)	(29)	(73,807)
Total equity	20,730	(29)	20,701

Consolidated statement of profit or loss and other comprehensive income:

	As previously reported	**The change**	**As presented in these financial statements**
	U.S dollars in thousands		
Six months ended 30 June 2017 (Unaudited):			
Cost of sales	23,516	(31)	23,485
Selling and marketing expenses	2,644	19	2,663
General and administrative expenses	1,688	(11)	1,677
Development costs	427	(10)	417
Finance expenses	1,054	62	1,116
Loss before taxes on income	(278)	29	(307)
Net loss	(574)	29	(603)
Total comprehensive loss	(574)	29	(603)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Change in accounting policy :(Cont.)

Consolidated statement of cash flows:

	As previously reported	The change	As presented in these financial statements
	U.S dollars in thousands		
Six month ended 30 June 2017 (Unaudited):			
From operating activities	(1,089)	306	(783)
From investing activities	(3,304)	45	(3,259)
From financing activities	2,819	(351)	2,468

NOTE 3:- ADDITIONAL INFORMATION ON OPERATIONS

a. General:

As more fully described in the Annual Financial Statements as of 31 December 2017, due to a change in the structure of the Group's internal organization that culminated in the second half of 2017, the Group presently has only one operating segment - the manufacturing and marketing of men and women's tailored fashion (mainly men's).

b. Revenues by geographical area:

	Six months ended 30 June		Year ended 31 December
	2018	2017	2017
	Unaudited		Audited
	U.S. dollars in thousands		
U.S.	17,762	21,839	39,571
Europe (mainly UK)	6,114	5,638	10,450
Other	922	616	1,070
Total	24,798	28,093	51,091

NOTE 4:- SUBSEQUENT EVENTS

a. In August 2018, the Company signed an appendix to the shareholders' agreement with the Egyptian partner of the Company's subsidiary in Egypt (see Note 5 in the 2017 Annual Financial Statements as of 31 December 2017). The parties agreed that upon termination of the shareholders' agreement in 2022 the minimum shareholders' equity will be approximately $3 million. As a result, in the six-month period ending 31 December 2018, the Company will record a reduction of the non-controlling interests in equity of approximately $440 thousand and a corresponding increase in equity attributable to equity holders of the Company.

b. In August 2018, the Company signed a subcontractor agreement with a manufacturer in Egypt,, which is controlled by the Egyptian partner of the Company's subsidiary in Egypt, according to which the Company is obligated to purchase certain minimum quantities of trousers and jackets at fixed prices over a period of four years ending in July 2022 to support the Group’s ability to fulfill volume orders from the USA from this duty free country, supporting the USA market growth strategy.